HSBC Mutual Fund

Equity Market Review

January, 2023

- Indian markets continued to correct in January while the global market staged a sharp recovery driven by China's re-opening and rising expectations of lower Fed rate increases. FIIs again turned large net sellers in India.
- S&P BSE Sensex & NSE Nifty indices were down 2.1% / 2.4%, respectively, while broader markets BSE Midcap / BSE Smallcap indices were down 2.7% / 2.5%, respectively.
- Power and Oil & Gas were the worst performing sectors, while Banks and Real Estate also saw sharp cuts. Autos and IT were the best performing sectors for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	90044	-2.1%	-2.1%
Nifty 50 TR	25686	-2.4%	-2.4%
S&P BSE 200 TR	9436	-3.5%	-3.5%
S&P BSE 500 TR	29550	-3.3%	-3.3%
S&P BSE Midcap TR	30530	-2.6%	-2.6%
S&P BSE Smallcap TR	34393	-2.5%	-2.5%
NSE Large & Midcap 250 TR	12454	-3.0%	-3.0%
S&P BSE India Infrastructure Index TR	393	-4.8%	-4.8%
MSCI India USD	747	-3.1%	-3.1%
MSCI India INR	1985	-4.0%	-4.0%
INR - USD	81.9	-1.0%	-1.0%
Crude Oil	84	-1.7%	-1.7%

Global Market Update

Major equity indices globally saw a sharp rally, with the MSCI World index up 7% led by the US market (S&P 500) which gained 6.2%. MSCI Europe was up 8.6% while MSCI EM was up 7.9%, supported by 11.8% jump in China. Crude oil prices declined by 2% during the month.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	2,785	7.0%	7.0%
Dow Jones	34,086	2.8%	2.8%
S&P 500	4,077	6.2%	6.2%
MSCI EM	1,032	7.9%	7.9%
MSCI Europe	1,881	8.6%	8.6%
MSCI UK	1,144	6.5%	6.5%
MSCI Japan	3,334	6.2%	6.2%
MSCI China	71	11.8%	11.8%
MSCI Brazil	1,556	6.6%	6.6%

- FIIs were sellers of Indian equities in January to the tune of $3.7 bn, while DIIs were buyers to the quantum of $4.1 bn in January. Domestic mutual funds purchased equity worth $2.2 bn while insurance funds invested $1.9 bn during the month.
- CPI inflation moderated further to 5.7% YoY in December from 5.9% in November on the back of declining food prices, however core inflation remained at above 6% YoY for 7th month in a row in December.
- Industrial production growth (IIP) in November jumped to 7% YoY from a 4% YoY decline in October. Both months were impacted by shift of Diwali holidays relative to the base year.
- INR appreciated over the month (up 1% MoM) and ended the month at 81.9/USD in January. India's FX reserves came in at $574 bn. FX reserves have improved by US$10.9 bn in the last four weeks.
- Other key developments during the month include – Gross GST revenue collected in Jan 2023 grew 11% YoY to Rs 1.55 tn.

Valuations

Nifty declined 2.4% in January leading to slightly lower valuations. Nifty is now trading on 17.7x FY24 PE. On a 10-year basis, Nifty is still trading at +1 STD from its historic average valuations but is now trading in-line with its 5-year average. However, in a rising interest rate environment, market returns may lag earnings growth due to moderation in valuation multiples.

Macro View

In our view, the macro environment remains challenging with heightened global geo-political and economic uncertainties. Weaker global demand leading to lower exports and larger current account deficits are likely to keep the Rupee under pressure. We expect domestic growth to be slower in FY24. However, some positives are now emerging with the strong infrastructure thrust of the Union government as announced in the recent Union Budget. We expect more than 20% growth (adjusted) in government capital spending to provide support to the economy. At the same time, the government has also reaffirmed its commitment to reducing fiscal deficit which should limit the risk of a further sharp increase in interest rates. Global decline in crude and fertilizer prices also offers a welcome relief for the economy.

Outlook

We believe the slowdown in global economic growth along with the impact of the sharp interest rate increase cycle that we have witnessed, could result in negative growth surprises going forward. On the positive side, moderation in global commodity prices from peak and stalemate in geopolitical situation provide some relief. India seems to be more stable supported by improvement in domestic demand, government thrust on infrastructure and support to manufacturing. However, Nifty FY24 earnings have not seen any upgrade till now in the ongoing Q3FY23 result season. We believe the consensus earnings growth forecast of 19%yoy for FY24 has some downside. Valuations despite correction remain on the higher side. However, further correction in crude prices, decline in inflation and normalization of the geopolitical situation would support the market. US Fed's hawkish tone on interest rates and the fear of global recession remain key concerns for investors. Indian equities are expected to remain volatile in the short term.

Key Drivers For Future

On the headwinds, we have

- **High and persistent inflation concerns (Global & Domestic)**
- **US Fed Policy:** Accelerated rate hikes and balance sheet shrinking process could mean volatile equities.
- **Moderating global and domestic growth** due to demand impact from sticky inflation. Higher interest rates are likely to weigh on consumption going forward.

We see the following positives for the Indian market:

- **Robust domestic macro:** Strong government thrust on infrastructure and manufacturing. Good monsoon and higher agri commodity prices should support rural demand. Urban demand should continue to improve with recovery in service economy.
- **Moderating commodity prices:** Reversal in commodity prices (especially crude oil and fertilizers) is a positive from inflation, fiscal deficit and corporate margins perspective.
- **Other factors/risks:** High current account and fiscal deficit.

Past performance is not an indicator of future returns. * Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices. (Source: Bloomberg, MOSL & HSBC MF estimates as on January 2023 end).

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